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UNCLAS HARARE 001498

SIPDIS

STATE FOR AF/S  
USDOC FOR AMANDA HILLIGAS  
TREASURY FOR OREN WYCHE-SHAW  
PASS USTR FLORIZELLE LISER  
STATE PASS USAID FOR MARJORIE COPSON

SENSITIVE

E. O. 12958: N/A  
TAGS: [ECON](#) [ETRD](#) [EINV](#) [PGOV](#) [ZI](#)  
SUBJECT: Tobacco Output Off 72 Percent

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Summary  
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1. Zimbabwe's three auction floors have concluded the 2004 tobacco season. Once the world's number one exporter of tobacco, shrinking harvests have translated into less export revenue and less foreign exchange for the central bank's official currency auctions. Cotton is currently rapidly overtaking tobacco as Zimbabwe's main cash crop.

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Tobacco's Decline  
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2. Zimbabwe should export about 67 million kgs of tobacco this year, down 72 percent from the banner 238-million kg harvest four years ago. At that time, Zimbabwe was the world's number one tobacco exporter and number three producer. Since 2001, tobacco output has been hard hit by the GOZ's fast-track land reform. We expect that cotton, a successful crop for small growers in Zimbabwe, will now overtake tobacco as a revenue-producer. The Zimbabwe Tobacco Association expects a 40-50 million kg tobacco harvest in 2005, rivaling the worst since the 1950s. (Farmers lay seedbeds for irrigated tobacco about 18 months in advance, facilitating early forecasts.) By contrast, the cotton harvest for 2005 should be roughly 230,000 metric tons, having gradually risen from 193,000 metric tons since 2002.

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What It Means for the Economy  
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3. The GOZ estimated exports would drop to US\$1.2 billion this year (down from \$1.4 billion in 2003 and a pre-recession US\$2.4 billion in 1997). Judging from the Finance Minister's speech last December, the GOZ based its forecast on a 100-million kg tobacco harvest. While tobacco now only accounts for 10 percent of exports, 33-million fewer kgs still adds up to a loss of US\$50-70 million in exports.

4. As the sole official supplier of foreign exchange to non-exporters, the RBZ's job is not getting easier. There are too few exports to satisfy forex demand, and it is nearly impossible for arrears-laden Zimbabwe to finance its external deficit through borrowing. The RBZ may sell just US\$900 million to the private sector this year, a serious constraint on trade and a paltry amount for a country that once imported US\$2.7 billion annually.

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Comment  
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5. The Zimbabwean economy is not only in freefall, it is also in transition. Given the country's move toward smaller-scale farms, it is unlikely a capital- and labor-intensive crop like tobacco will ever regain past prominence. Buyers tell us their companies have already compensated for the loss of Zimbabwean flue-cured tobacco through expanded purchases in China and Brazil. Land equitability aside, tobacco was an enormously efficient crop for Zimbabwe. It was the country's largest employer and accounted for 30 percent of export revenue while using only 3 percent of arable land.

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